Supporting Commercial Agricultural Growth in Nigeria Opportunities for Production and Processing Investment

MARKETS

...making agribusiness work for Nigerian farmers

June 9, 2009



Speakers

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Agenda

Define in-country resources for agribusinesses

Understand how USAID helps commercial agribusinesses

Examine a case study for rice production

Explore opportunities in Cassava

Discuss the Nigerian business environment



Financing agribusiness is a challenge.

Question 1

Other than financing, what is the biggest challenge facing agribusinesses in Nigeria?

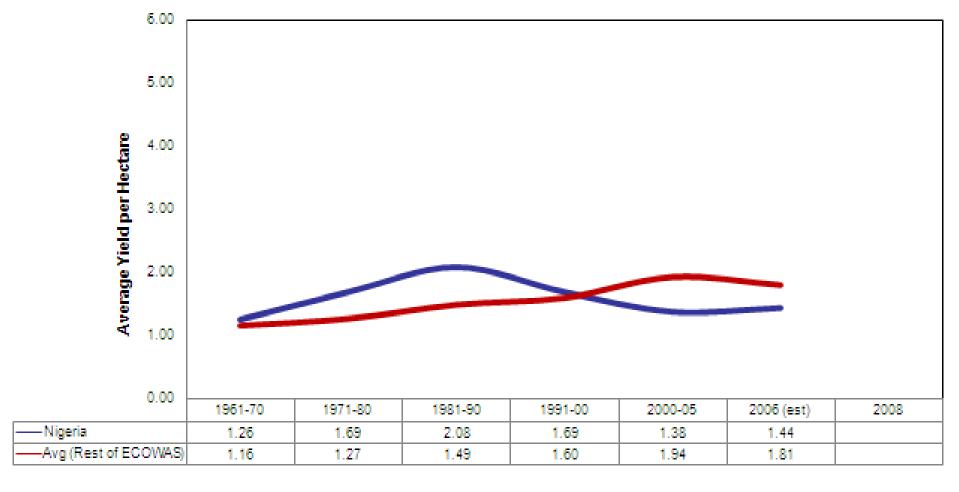


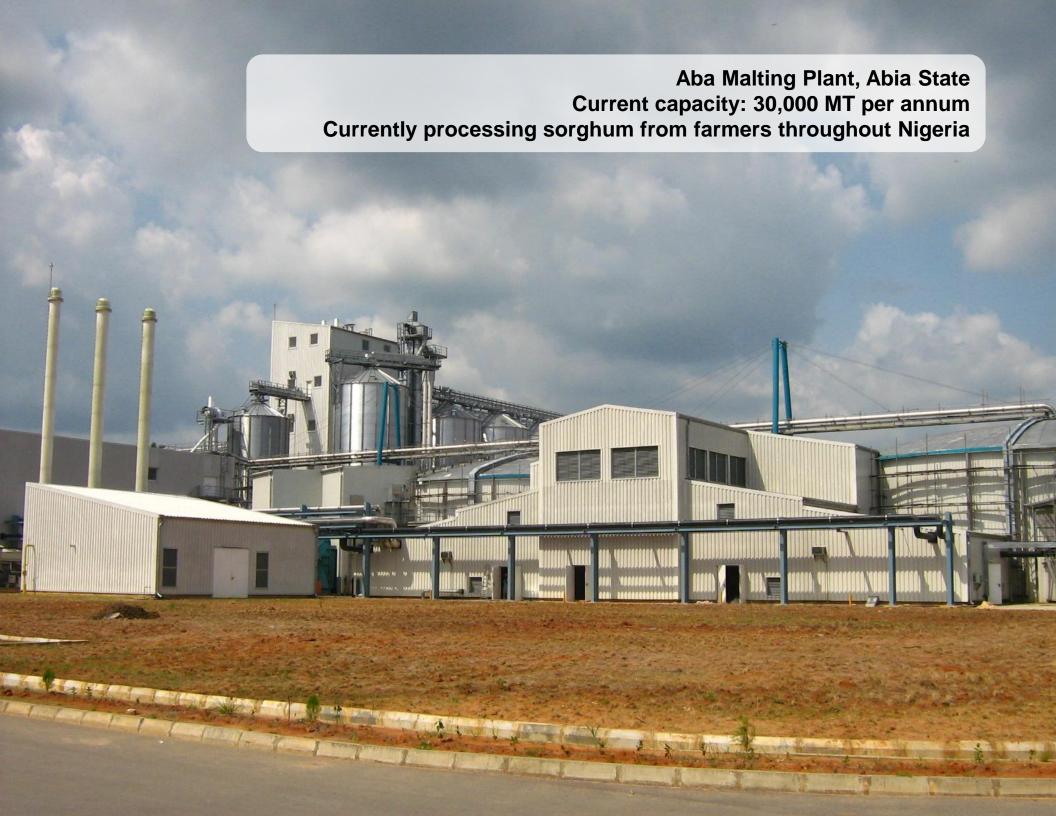


Building a Competitive Rice Industry Production: Yields are a Proxy for Production Competitiveness

While Nigeria's average yield/hectare has fallen below the ECOWAS average, MARKETS has demonstrated that the capacity to increase yield is substantial

Yield / Ha as a Proxy for Production Competitiveness







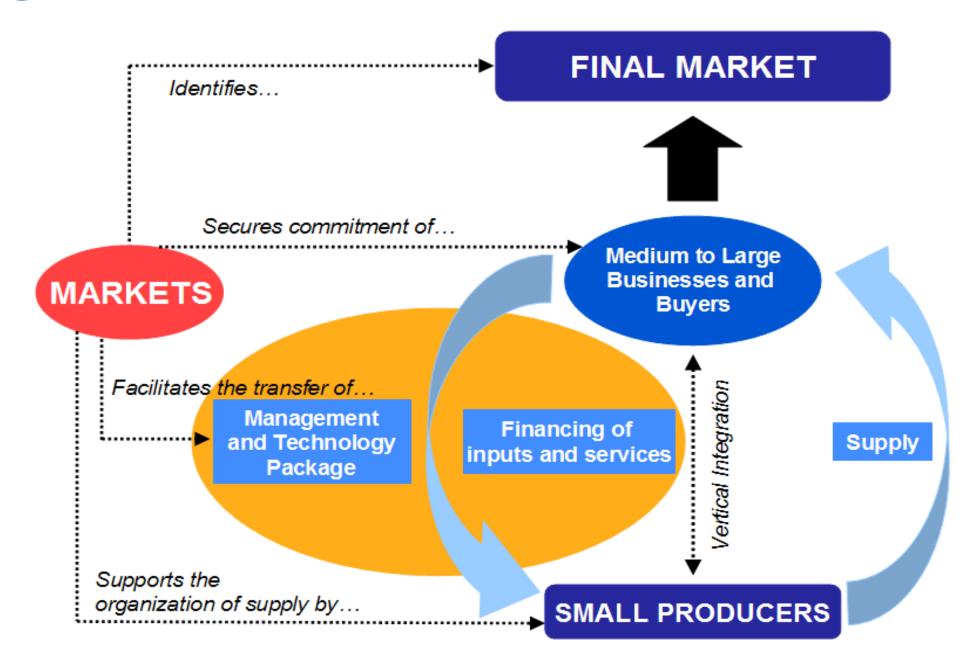
Agribusiness Partners

Aba Malting Plant Convenient Home Foods **Durante Fish Industries Ebony Industries** Ekha Agro El Bhi **Grand Cereals** Magnum Associates Matna Foods Nigerian Starch Mills **Notore Chemical Industries** Olam Nigeria

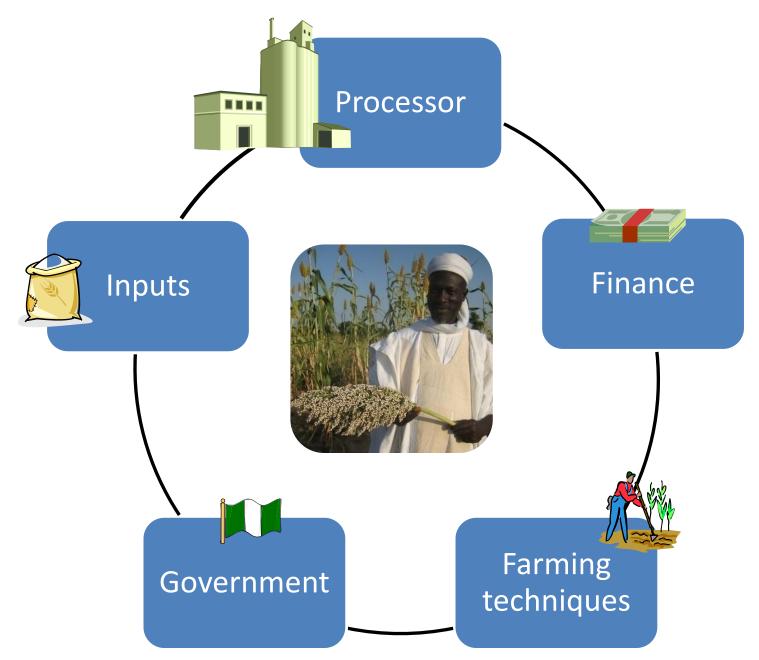


















Case Study: Rice Processing in Benue



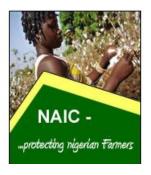
Farmer Cooperatives
First Bank of Nigeria
Nigerian Agricultural Insurance
Corporation



ADP / Benue State Government Olam Nigeria Limited









Case Study: Rice Processing in Benue

"Mama's Pride" competes on both price and quality with imported rice

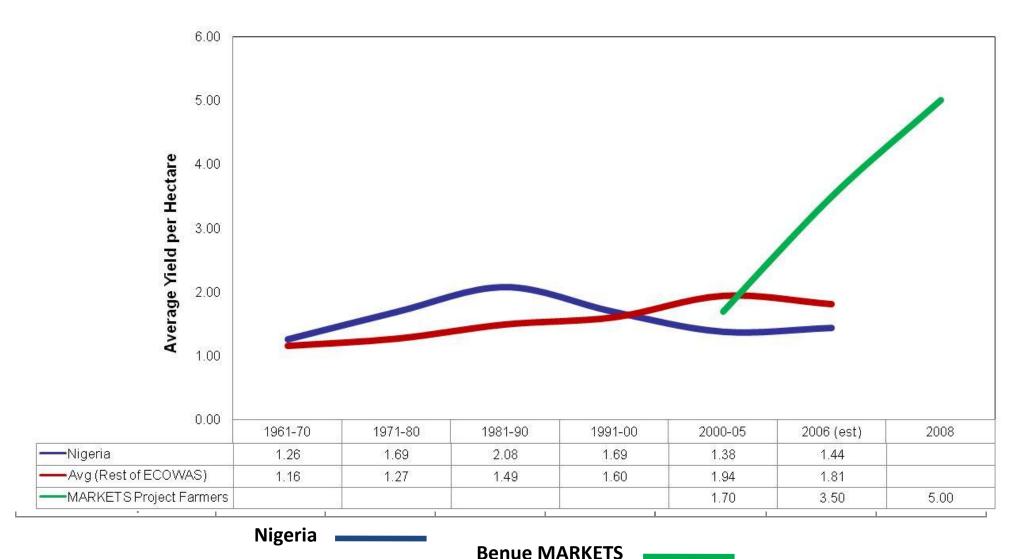


Building a Competitive Rice Industry Production: Yields are a Proxy for Production Competitiveness

Average of Other ECOWAS

While Nigeria's average yield/hectare has fallen below the ECOWAS average, MARKETS has demonstrated that the capacity to increase yield is substantial

Yield / Ha as a Proxy for Production Competitiveness







2008
WORLD BUSINESS AND
DEVELOPMENT AWARDS

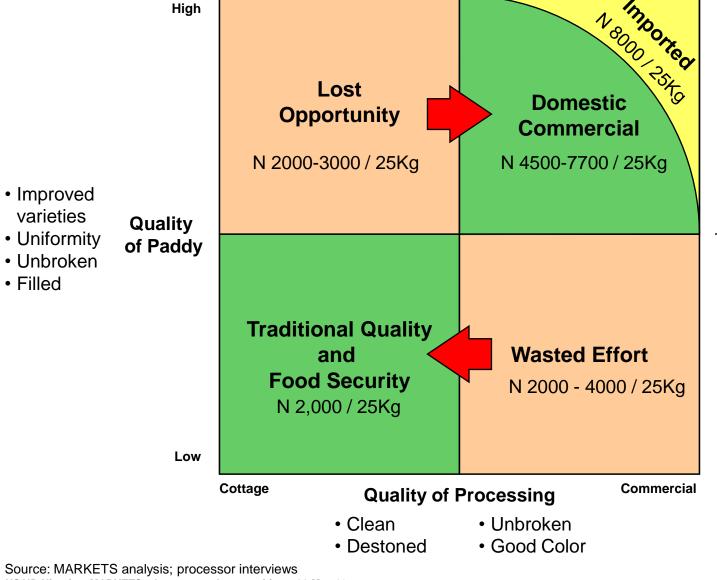
FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD The Next Billions:

Business Strategies to Enhance Food Value Chains and Empower the Poor

Building a Competitive Rice Industry Processing: Optimizing Sales Channels and Processing Type

The competitiveness of rice depends on tying quality of paddy to quality of processing. Farmers must have incentives to sell high quality paddy to the commercial market, and paddy volumes must be sufficient to allow commercial processors to avoid low quality paddy.



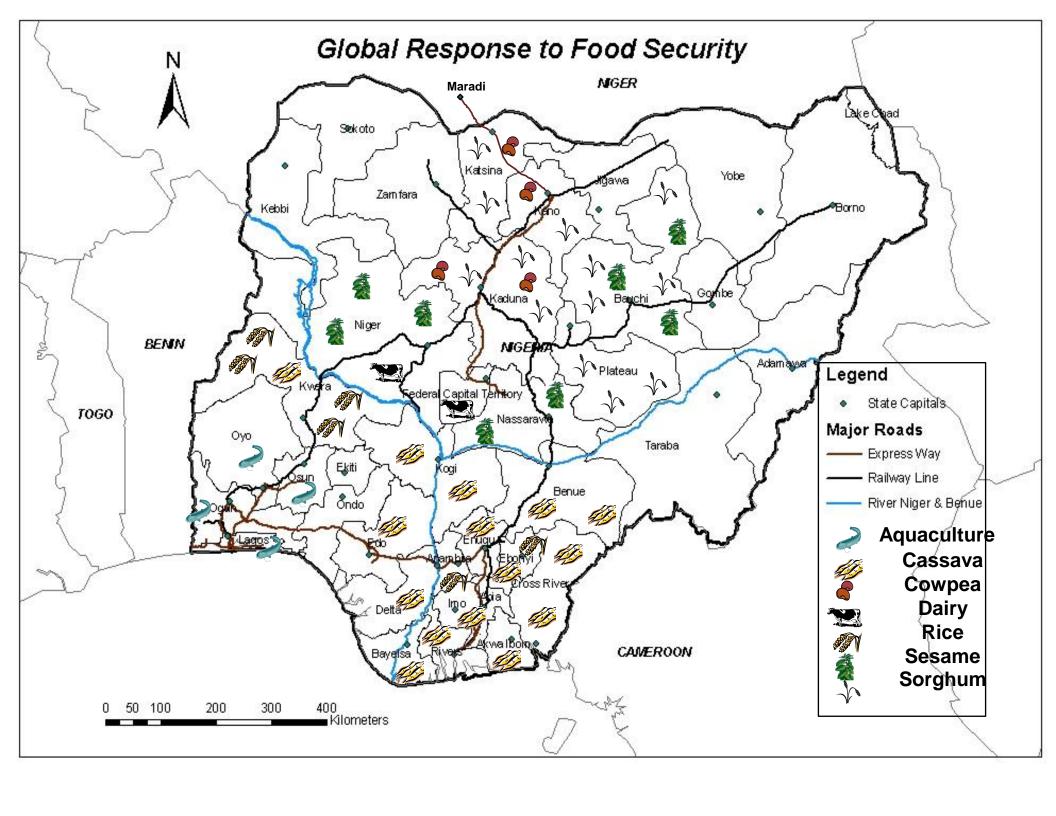
Effective Branding and Customer Experience

- Consistency
- Taste
- Fluffing
- Stickiness



Cumulative Summary of Results: 2006 – April 2009

	No of new clients networked	No of new jobs created	Revenue generated (\$ million)	Financing leveraged for clients (incl. MSME)	Increased productivity	Volume processe d
Rice	63,966	24,307	89.403	See total	247%	99.5%
Dairy	815	102	1.54	See total	6.8%	11.98%
Sorghum	17,000	12,566	2.306	See total	90%	26.25%
Cowpea	22,360	10,093	3.03	See total	250%	44.5%
Sesame	5,000	600	0.145	See total	New Commodity	
Aquaculture	1,200	551	9.76	See total	N/A	N/A
TOTAL	110,341	48,219	106.184	\$40.533m	148.5%av	45.6%av





MARKETS Priorities and Partners 2009 - 2010 Global Food Security Response

Trade & Transport Constraints - Nathan Associates

Fertilizer Market Development - IFDC

Support CAADP and other agricultural policy Initiatives - IFPRI

Seed companies produce foundation and certified seeds – ICRISAT / WASA

Develop Nigeria's cassava markets - IITA

Improved rice production technologies - WARDA

Business Skills Training - Making Cents



Other than financing, what is the biggest challenge facing agribusinesses in Nigeria?

Question 2

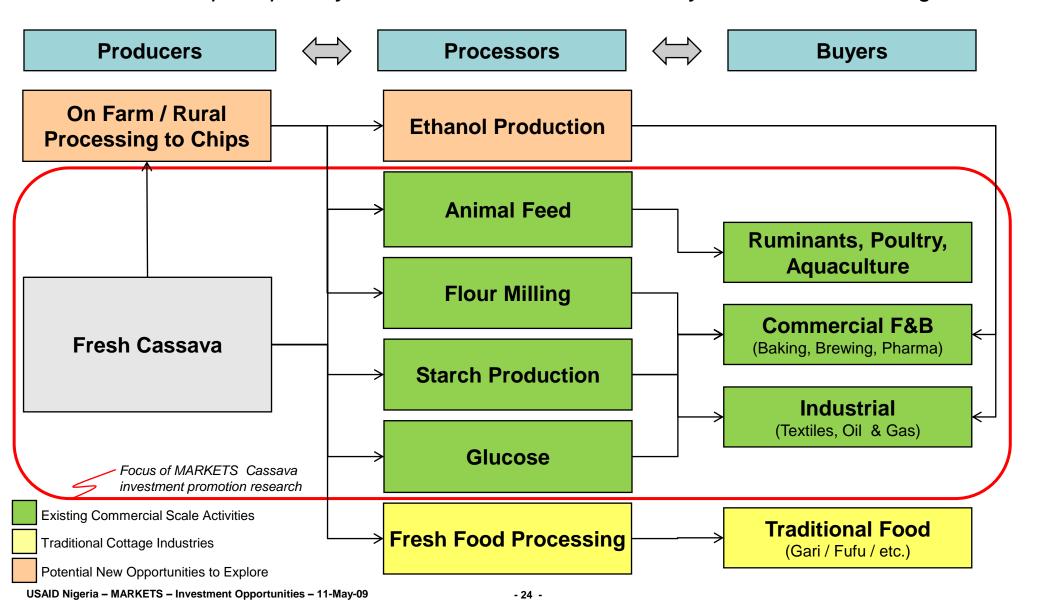
Who should address this challenge?

An individual? Government agency? Private sector provider? Research institution?



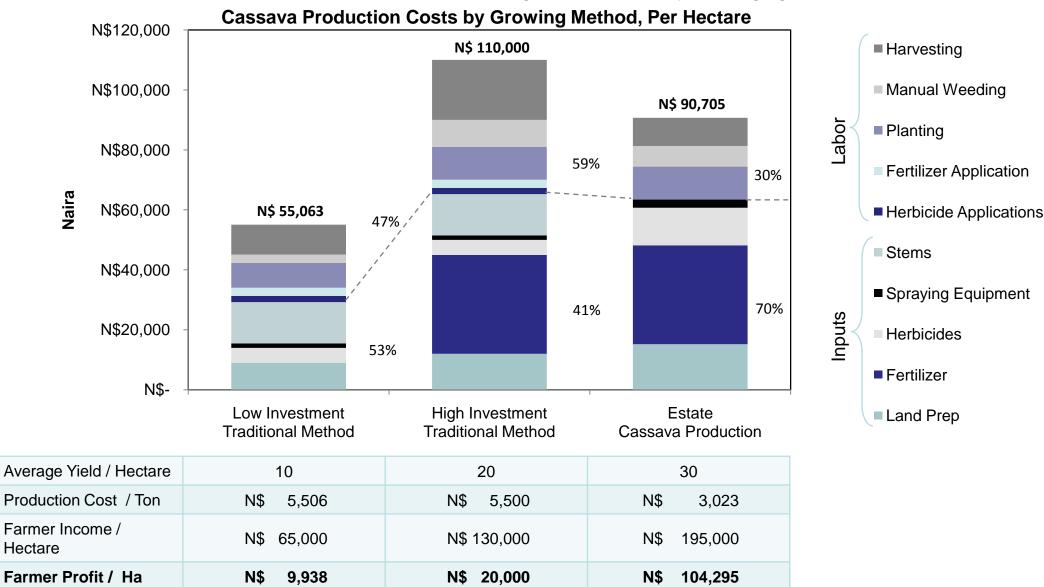
Building a Competitive Cassava Industry Market Map: Cassava

While there are many uses for commercially processed cassava, the majority of processors want fresh cassava. Chips appear an attractive solution to transport challenges, but the market size and price penalty relative to fresh make it currently unattractive on a large scale



Building a Competitive Cassava Industry Production: Cost to Produce Fresh Cassava

Access to finance is a critical factor in supporting farmers ability to engage in improved activities.

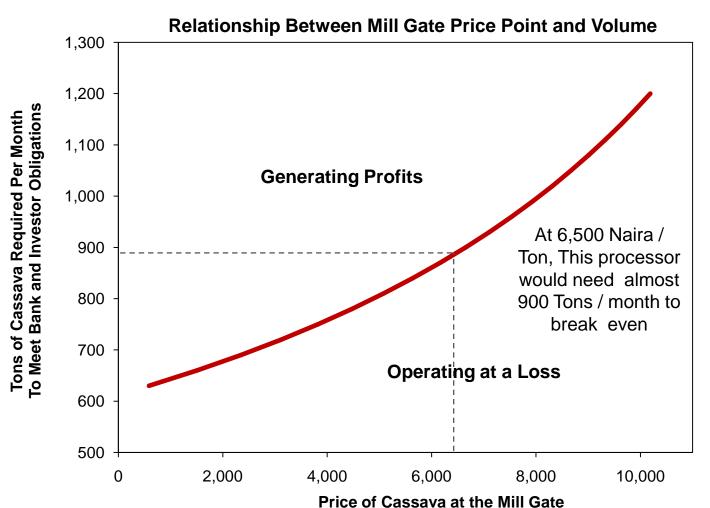


NOTE: Ongoing stem costs should drop to zero unless a different varietal is selected. Harvesting is labor only for LIT and HIT production and are calculated based on yield per hectare; Estate harvesting is combination tractor and labor and is calculated on area only. Assumes selling price of N6,500 / MT.

SOURCE: Producer and processor interviews; MARKETS production cost model

Building a Competitive Cassava Value Chain Processing: Consistency of High Volume Supply is Critical

Processors in general are carrying very high fixed costs. Therefore, volume is critical as the more product that is produced, the less those fixed costs impact the final unit price.



Commercial processors of Cassava need consistent volumes to be profitable.

Losses incurred due to limited supply must be recovered when cassava is available.

Supply variability limits commercial buyers ability to pay higher prices

NOTE:

This data represents a hypothetical cassava processing company (CassProCo). The factory has a value of 750MM Naira, of which 150MM is bank financed at 16% interest over a 7 year term. The remaining 600MM is from investors who expect a 5% annual return. The assets of the factory are depreciating over a 10 year period. The plant carries 875K Naira / month in fixed labor costs and 139K Naira / month in fixed energy costs. The plant operates in 8 hour shifts and can process 30 Tons of Cassava per shift. The plant only operates when it has the required volume of cassava to run for a full shift. The plant can operate up to 2 shifts per day, 20 days per month. Variable costs per shift to process the cassava are 36K Naira per shift for manual labor, fuel, and specialized inputs. The finished output of the plant is 20% of cassava input (by weight) and sells for 110K Naira / MT. This model assumes complete market uptake of finished product at all volumes produced.

Potential Commercial Support Activities for MARKETS Cassava Opportunities

Primary opportunities to expand or connect current value chain. Possibility to extend in to ethanol or more complex products

Develop a coordinated solution to transport challenges for exiting processors

- Investment by current commercial processors in backward integration into transport
- Attract specialized transport provider to build business / offer targeted

Support rapid expansion of commercial scale farming / estate model

- Attract commercial farming investors to Nigeria
- Package customized out grower support programs optimized for estate models

Attract co-located processing investment

- Single investor or co-located investment with contract buying agreements
- Intermediate processing of cassava roots into a commercial starch or sugar product



Who should address this challenge?

Question 3

What can you do to help address the challenge?



The Nigerian Business Environment

How does Nigeria Rank for doing business?

What are Nigeria's Strengths and Weaknesses?





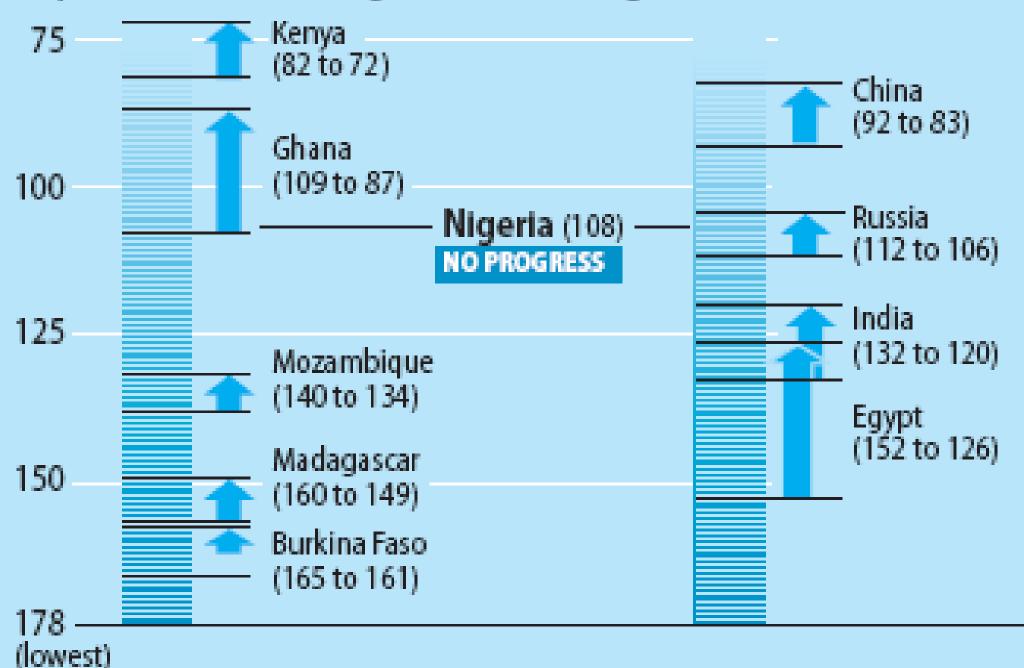
The Global Compe	Competitiveness Index rankings and 2007–2008 comparisons GCI 2008– 2009 rank GCI 2008– 2009 rank (among 2007 2007–2008 country/Economy Rank Score				ECO FC	WØRLD ECONOMIC FORUM			
United States	1	5.74	1	1	Azerbaijan	69	4.10		MITTED TO
Switzerland	2	5.61	2	2	Vietnam	70	4.10		ING THE STATI THE WORLD
Denmark	3	5.58	3	3	Philippines	71	4.09	70	71
Sweden	4	5.53	4	4	Ukraine	72	4.09	71	73
Singapore	5	5.53	5	7	Morocco	73	4.08	72	64
Finland	6	5.50	6	6	Colombia	74	4.05	73	69
Germany	7	5.46	7	5	Uruguay	75	4.04	74	75
Netherlands	8	5.41	8	10	Bulgaria	76	4.03	75	79
Japan	9	5.38	9	8	Sri Lanka	77	4.02	76	70
Canada	10	5.37	10	13	Syria	78	3.99	77	80
Hong Kong SAR	11	5.33	11	12	El Salvador	79	3.99	78	67
United Kingdom	12	5.30	12	9	Namibia	80	3.99	79	89
Korea, Rep.	13	5.28	13	11	Egypt	81	3.98	80	77
Austria	14	5.23	14	15	Honduras	82	3.98	81	83
Norway	15	5.22	15	16	Peru	83	3.95	82	86
France	16	5.22	16	18	Guatemala	84	3.94	83	87
Taiwan, China	17	5.22	17	14	Serbia	85	3.90	84	91
Australia	18	5.20	18	19	Jamaica	86	3.89	85	78
Belgium	19	5.14	19	20	Gambia, The	87	3.88	86	102
Iceland	20	5.05	20	23	Argentina	88	3.87	87	85
Malaysia			21	21	Macedonia, FYR	89	3.87	88	94
Ireland			22	22	Georgia	90	3.86	89	90
Israel			20	17	Libya	91	3.85	90	88
New Zealand					Trinidad and Tobago	92	3.85	91	84
Luxembourg	25	4	81 1		Kenya	93	3.84	92	99
Qatar	26		Nigeria		Nigeria	94	3.81	93	95
Saudi Arabia	27		94 out of 3	131	Moldova	95	3.75	94	97
Chile	28				Senegal	96	3.73	95	100
Spain	29				Armenia	97	3.73	96	93
China	30	4.70	30	34	Dominican Republic	98	3.72	97	96
United Arab Emirates	31	4.68	31	37	Algeria	99	3.71	98	81
Estonia	32	4.67	32	27	Mongolia	100	3.65	99	101
Czech Republic	33	4.62	33	33	Pakistan	101	3.65	100	92



Top performers

TOP 10 DOING BUSINESS COUNTRIES	TOP 10 AFRICAN COUNTRIES	TOP 10 REFORMERS	
1. Singapore	27. Mauritius	1. Egypt	
2. New Zealand	35. South Africa	2. Croatia	
3. United States	43. Namibia	3. Ghana	
4. Hong Kong, China	51. Botswana	4. Macedonia, FYR	
5. Denmark	72. Kenya	5. Georgia	
6 United Kingdom	87. Ghana	6. Colombia	
a	95. Swaziland	7. Saudi Arabia	
8. re Nigeria: 108 out of 178	102. Ethiopia	8. Kenya	
9. Au	108. Nigeria	9. China	
10. Iceland	116. Zambia	10. Bulgaria	

Improvement in ranking on ease of doing business (2007 to 2008)



Source: Doing Business database.

Nigeria's Top Performing States

Indicator	Nigeria's performance in Doing Business 2008*	Best performing state	Best practice
Procedures to start a business	9	Abuja, FCT	5
Days to open a business	34	Abuja, FCT	22
Cost to open a business	57%	Abuja, FCT	37%
Procedures to build a warehouse	18	Bauchi, Kaduna	12
Days to build a warehouse	350	Sokoto	46
Cost to build a warehouse	1,016%	Kaduna	142%
Procedures to register property	14	Abuja, FCT, Bauchi	12
Days to register property	82	Kano	38
Cost to register property	22.2	Abuja, FCT	9%
Days to enforce a contract	457	Abia	315
Cost to enforce a contract	32%	Kaduna	13%

^{*} In the global Doing Business report, Nigeria is represented

